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FM AMEMBASSY CARACAS  
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INFO RUEHHH/OPEC COLLECTIVE  
RUEHAC/AMEMBASSY ASUNCION 0966  
RUEHBJ/AMEMBASSY BEIJING 0386  
RUEHBO/AMEMBASSY BOGOTA 7945  
RUEHBR/AMEMBASSY BRASILIA 6107  
RUEHLP/AMEMBASSY LA PAZ 2858  
RUEHPE/AMEMBASSY LIMA 1140  
RUEHSP/AMEMBASSY PORT OF SPAIN 3664  
RUEHQT/AMEMBASSY QUITO 2954  
RUEHSG/AMEMBASSY SANTIAGO 4085  
RUEHDG/AMEMBASSY SANTO DOMINGO 0613  
RUEHKO/AMEMBASSY TOKYO 0151  
RHEHNSC/NSC WASHDC  
RHEHAAA/WHITEHOUSE WASHDC  
RHEBAAA/DEPT OF ENERGY  
RUCPDOG/DEPT OF COMMERCE  
RUEATRS/DEPT OF TREASURY  
RUMIAAAA/HQ USSOUTHCOM MIAMI FL

C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 000239

SIPDIS

ENERGY FOR CDAY AND ALOCKWOOD, DOE/EIA FOR MCLINE  
HQ SOUTHCOM ALSO FOR POLAD  
TREASURY FOR RJARPE  
COMMERCE FOR 4431/MAC/WH/JLAO

E.O. 12958: DECL: 02/20/2019  
TAGS: [EPET](#) [EINV](#) [ENRG](#) [ECON](#) [VE](#)  
SUBJECT: PDVSA STRUGGLING WITH FINANCIAL AND TECHNICAL  
PROBLEMS

REF: (A) 08 CARACAS 1477 (B) CARACAS 136 (C) CARACAS  
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Classified By: Economic Counselor Darnall Steuart, for reasons 1.4 (b)  
and (d).

11. (C) SUMMARY: According to the CEO of a major domestic oil field services company, Chavez continues to spend as if world oil prices will quickly return to a minimum of \$60/barrel, ignoring other budget scenarios developed by PDVSA planners. This contact avers that Venezuela is not only facing an oil production crisis but also a crisis with natural gas. Another contact revealed that one of its service companies had recently received a surprise payment from PDVSA which he attributed to PDVSA's efforts to prevent the company from drawing on a letter of credit with the Royal Bank of Scotland while PDVSA is negotiating to maintain and expand access to international credit. END SUMMARY.

12. (C) EconCoun and Petroleum Attache (Petatt) met with Gamal Ayoub, newly named CEO of Jantessa (strictly protect throughout) on February 5. Close contacts in PDVSA have told Ayoub that senior finance executives within PDVSA presented President Hugo Chavez with various budget proposals for 2009, including scenarios estimating oil prices at \$20, \$30, \$40, \$50, and \$60 per barrel. According to Ayoub, Chavez continues to spend as if oil will return to a minimum of \$60 per barrel and is not considering the alternatives. (Note: The GBRV's 2009 budget is based on an assumed price of \$60/barrel of oil and an assumed production level of 3.6 million b/d (reftel A). To date, the Venezuelan basket for 2009 averages just over \$36/barrel and OPEC itself puts January 2009 production at 2,197,000 b/d.)

Oil Field Services Sector Payments  
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13. (C) Ayoub presented two explanations for the current payment crisis with the oil service companies (Reftel B). In

the first scenario, he posited that the government assumes that much of the oil field services sector supports the political opposition. It is thus stripping the opposition of its cash flow by drawing down bank balances and stopping payments to service companies. (NOTE: Per reftels, companies have told Econoffs that PDVSA is between two and eight months behind in payments. Ayoub acknowledged that Jantessa has not been paid since November 2008.) According to the second scenario, PDVSA's cash flow predicament is much worse than that portrayed in the media. Ayoub believes PDVSA is \$1.5 billion short from being able to close its 2008 accounts. (Note: Press reports generally cite a figure of \$7.8 billion, which includes both dividend payments owed to operators and payments to service companies.) In these circumstances, said Ayoub PDVSA apparently cannot get credit from hotels or taxis, which all require pre-payment for services due to PDVSA's outstanding debt. Ayoub characterized recent press reports of PDVSA negotiating 40% service contract reductions as an attempt by some in the company to reduce costs. He stressed that this was not yet PDVSA policy and that the company is "feeling out contractors' openness" to renegotiating contracts. The CDA was recently told that PDVSA offered to pay 45% of a \$7 million debt (denominated in Bolivares at the black-market rate of \$1 USD to 5.5 Bolivar Fuertes) to one of the service companies and the company accepted.

14. (C) In a separate February 5 meeting with Jan Dehn of the Ashmore Group (strictly protect throughout), Dehn shared that Ashmore owns two service companies that have projects in

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Venezuela. Up until the week of February 2 when one received a surprise payment, neither had been paid for several months.

Dehn believes PDVSA was trying to prevent the service company from drawing on a letter of credit it has with the Royal Bank of Scotland (RBS), while PDVSA was negotiating a separate loan with an RBS-led consortium. The other subsidiary, without a credit letter, has not been paid.

15. (C) Both Ayoub and Dehn confirmed that PDVSA and JBIC have been negotiating a \$1.5 billion line of credit. Dehn said he expects JBIC and another Asian state to each announce in March credit lines to PDVSA for \$1.5 billion each. These would, he said, be in addition to a renewal of the \$4 billion Fondo Chino loan extended by the PRC (Reftel C).

#### Domestic Gas Sector Near Crisis

16. (C) In responding to a question about a possible oil production crisis, Ayoub stressed that the real impending crisis in Venezuela is in the gas sector. According to Ayoub, Jantessa won the 2004 bid to construct the so-called Central Western Interconnection (ICO -- Interconexion Centro Occidente) pipeline. (Note: This pipeline sought to improve Venezuela's east to west domestic natural gas transport network. Colombia is currently exporting natural gas to western Venezuela; long term plans have held that Venezuela would start to export gas to Colombia in 2012.) Once the three compression stations along the system were built, the pipeline was expected to have a capacity of approximately 500 MMcf/d. According to Ayoub, Jantessa is scheduled to turn the final compressor station at Moron over to PDVSA at the end of March, but Jantessa is now negotiating to be released from the final performance testing requirements because PDVSA cannot provide enough gas to meet minimum operating requirements. Moron has three compressors and PDVSA is currently providing gas to meet the needs of one-half of one of the three compressors.

17. (C) Ayoub also confided that in 2008 PDVSA drilled 35 wells in Anaco and failed to tap any gas. He described a process in which the President of PDVSA Gas simply said that a particular location looked like a good place to drill a well. (Note: A PDVSA automation engineer working in Anaco, interviewed following her visa renewal in the consular

sector, confirmed to Petatt that the Anaco gas projects are paralyzed due to a lack of funding.)

#### Further Internationalization of Oil Field Services Sector

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18. (C) The development of a domestic oil field services industry -- of which Jantessa was a leading member -- has supposedly been a goal of the Chavez administration. Ayoub, however, confirmed that PDVSA had approached the company to tell it that it would no longer work with Jantessa if one of its owners, who had had an interest in leading opposition media outlet Globovision, remained affiliated with the company. Ayoub arranged for Saudi money to come into Jantessa and himself moved up as CEO. He added that Jantessa will now be looking to expand its business opportunities outside Venezuela.

19. (C) Comment: PDVSA's inability to control its cash flow is negatively impacting its relationships with service providers, but more importantly on its future ability to produce crude and gas. Without export earnings sustained by high oil prices, Venezuela will not be able to afford its current level of imports and belts will have to be tightened.  
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